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Railroad management, organization and finance

[Washington, D.C.]

[1923]

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# Railroad Management, Organization and Finance



Excerpts from
"Transportation"

Report of the Joint Commission of Agricultural Inquiry, United States Congress

MAY 15, 1923



PREPARED BY

COMMITTEE ON PUBLIC RELATIONS
AMERICAN RAILWAY ASSOCIATION
ASSOCIATION OF RAILWAY EXECUTIVES
WASHINGTON, D. C.

## JOINT COMMISSION OF AGRICULTURAL INQUIRY

UNITED STATES CONGRESS

SENATE MEMBERS.

IRVINE L. LENROOT, Wisconsin.
ARTHUR CAPPER, Kansas.
CHARLES L. McNARY, Oregon.
JOSEPH T. ROBINSON, Arkansas.
PAT HARRISON, Mississippi.

HOUSE MEMBERS.

SYDNEY ANDERSON, Minnesota, *Chairman*
OGDEN L. MILLS, New York.
FRANK H. FUNK, Illinois.
HATTON W. SUMNERS, Texas.
PETER G. TEN EYCK, New York.

DONALD D. CONN,
*Chief, Transportation Division.*
IRVING S. PAULL, *Secretary.*

**The Joint Commission of Agricultural Inquiry was created by Senate concurrent resolution 4 and directed to investigate and report to the Congress upon the following subjects:**

1. **The causes of the present condition of agriculture.**
2. **The cause of the difference between the prices of agricultural products paid to the producer and the ultimate cost to the consumer.**
3. **The comparative condition of industries other than agriculture.**
4. **The relation of prices of commodities other than agricultural products to such products.**
5. **The banking and financial resources and credits of the country, especially as affecting agricultural credits.**
6. **The marketing and transportation facilities of the country.**

**The resolution was passed by the Senate May 31, 1921, and by the House June 7, 1921, and as adopted required this Commission to report within 90 days after the passage of the resolution. This period, however, was subsequently extended to the first Monday in January, 1922, and thereafter to April 15, 1922. * * ***

**The present part of the report deals primarily with the subject of railroad management.**

## Railroad Management, Organization and Finance.

The Joint Commission, in centering its attention upon the relation of transportation to the welfare of the farmer, became greatly impressed with the fact that adequate facilities were absolutely necessary to the continued prosperity of agriculture and industry. Therefore, it urges a "better appreciation" of this fact upon all parties concerned. On this point it says:

> "Nothing is clearer than the close interrelation of interest and interdependence of agriculture, transportation and industry. There should be a better appreciation on the part of each of the problems of the other, and a closer contact with the responsible representatives of these three great interests. The failure to appreciate this interdependence is in a large degree responsible for the existence of the present railway trouble, and this commission believes that the establishment of public-service departments by the railroads which have not already created them would do much to correct this situation."
>
> "Agriculture, as the greatest of American industries, is peculiarly dependent upon transportation, which is the second industry. The two have many interests in common, and the crippling of either reacts upon the other. It is vital to the farmer that he should have prompt and adequate transportation for his crops at reasonable rates. To meet this need, the development of the railroad facilities of the country should be kept abreast of the growth of population and of the consuming capacity of that population."

## Carriers Watch Operating Results.

The impression has spread abroad to the effect that railway management has become divorced from the actual operation of the roads. In its study of the situation, however, the Commission finds that this impression has no foundation in fact. As to the careful supervision and detailed control by railway management, it says:

INTENTIONAL SECOND EXPOSURE

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"The extent of the supervision and control exercised by management over transportation costs and operating performance is not generally appreciated by the public. A detailed statement, with accompanying exhibits showing the cost-accounting system of one of the large railroads of the country, was presented to the commission. This statement and the exhibits accompanying it, show a very careful analysis of the costs of the various operations performed by the railroad, and that the management, especially of the large lines, is currently advised in regard to detailed items of cost and their relation to performance. These detailed items of cost show daily fuel consumption per unit of service, the actual performance of trains and locomotives, the coal consumed in such operation, labor cost, and all other items of cost and service which are necessary to accurately gauge the performance of the road and to supervise and control its operations upon the most effective and efficient basis."

## Effective Co-Operation Among Carriers.

The Commission found that the carriers have extensive organizations to meet the complicated problems arising from their responsibilities to agriculture, industry and the need for effective cooperation among themselves. A part of this organization is thus described:

"In dealing between themselves and as a group with the public the management has set up various organizations throughout the country, the most important of which are the various consolidated tariff bureaus and the American Railway Association.

"The duties of the tariff bureaus are the coordination and publication of passenger and freight tariffs. Since the return of the railroads to their owners by the Federal Government, these bureaus have established so-called standing rate committees whose functions are to deal directly with the shippers of the country when discussing rate changes. The establishment of these standing rate committees represents an advancement in railway management in dealing with the public. Usually the occupants of positions on these committees are men of high caliber and long experience, and with a few exceptions are generally sympathetic with the needs of the shippers in the territories under the jurisdiction of the particular tariff bureau."



## Railroad Credit.

Railroads have their credit problem just the same as agriculture and any other business. In commenting on the credit problem which the carriers face the Commission says:

"Sound credit enables the railroads to provide adequate service and facilities. The soundness of railroad credit depends upon earning a reasonable return upon value of the property put to public use, to attract the new investment needed to increase transportation service and facilities. Such service and facilities must be enlarged and improved, so as to keep pace with the growth of the country and its business expansion. The Transportation Act of 1920 authorized the Interstate Commerce Commission to establish rates so as to produce a fair return on the aggregate value to be determined by the latter commission of the railway property of the carriers held for and used in the transportation service. Acting under that authority the Interstate Commerce Commission fixed such rates as it is expected would produce the return specified in the Transportation Act, of not exceeding 6 per cent for the railroads in groups, for the two years ending March 1, 1922; because of a decrease in traffic that expectation unfortunately was not realized."

"Congress, in passing the transportation act, had the stabilizing of railroad credit in mind when it provided that rates should be so fixed as to produce a definite return upon aggregate railway value. This rate of return after March 1, 1922, is to be fixed by the Interstate Commerce Commission from time to time, and in making its determination the Transportation Act requires it to give consideration to the transportation needs of the country and the necessity for enlarging the transportation facilities in order to provide the people of the United States with adequate transportation."

To perform its service effectively and to keep its vast "plant" fully equipped and in operation, a railroad must purchase large supplies of various materials and must employ great numbers of workmen. The railroads of our country are large consumers. The Commission points out the fact that—

"The railroads are one of the largest consumers, taxpayers, and employers of labor, but these low re-

**turns prevent them from promoting prosperity and providing adequate facilities, improvements and equipment until that situation is improved."**

### Must Have Fair Return.

The railroads, owned and operated by private capital, as distinguished from government ownership and control, must be permitted to realize a fair return on the capital invested. This is the only way in which their credit can be restored. In this connection the Commission says:

> **"Considering the present obligations resting upon the Government and upon the country at large, and as a matter of economic policy, new money for railroad improvement should not be raised through constant Government aid. The Government should not be called upon to guarantee that the principal of railroad securities is safe and that the interest and dividends thereon will be regularly paid. In the public interest the railroad industry must rest upon its own foundations, and its revenues must be so constructively regulated that their operations will produce enough to pay fair wages, cost of materials, taxes, meet the fixed charges, pay a fair dividend, and leave a small margin to attract investors of new capital. In other words, to obtain new railroad capital, the opportunities to earn and pay regular returns must exist, and railroad managements must be encouraged to exercise the greatest initiative in improving and extending transportation facilities. Furthermore, conditions should be created whereby the sale of capital stock by the principal roads will become possible and the continued increase in funded debt will be minimized."**

The lack of opportunity, through too severe restrictions by the Government, for the roads to build up reserves as a buffer against periods of depression is recognized by the Commission. It states:

> **"The Transportation Act as a whole is a most valuable piece of constructive legislation and gives promise of working out to the great benefit of the country. It is unfortunate that its provisions went into effect at the beginning of a period of depression, because there was no opportunity for the railroads to build up any reserves such as contemplated in the act to carry them through a time when traffic was subnormal and expenses continued to be abnormal."**

### Heavy Taxes Increase Carriers' Burdens.

Taxes have imposed an increased burden upon the railroads for many years. The Commission has directed attention to this fact.

> **"Attention is directed to the burdens placed upon transportation by taxation levied by Federal, State, and municipal authorities. The public have now been relieved of special taxes upon freight and passenger transportation, which for 1920 approximated $253,000,000. The railroad companies, however are assessed a tax upon income."**
>
> **"In 1916, 1,147 steam-railroad corporations, with net income of $798,505,481, paid $15,628,776 corporation income tax. In 1918, 300 steam-railroad corporations, with net income of $290,591,122, paid $34,160,415 income tax and $2,507,529 war-profits and excess-profits tax, a total of $36,667,944. In 1918, 229 steam-railroad corporations reported a deficit of $22,412,892 and paid no tax. Effective January 1, 1922, the normal tax on income of the railroad companies was increased from 10 per cent to 12½ per cent."**
>
> **"New and varied forms of taxation are constantly being levied; some of them are intended to reach railroads to the exclusion of other forms of business. Railroads should, of course, pay proper amount of taxes, but it must be remembered that whatever they pay must be passed on to the public through rates."**
>
> **"There has been a heavy increase in the amount of taxes paid by the railroads. In 1911 the total of both Federal and State taxes was $98,626,848; in 1920 this had reached $271,910,509, an increase of 175.7 per cent. Of the 1920 taxes, $48,619,308 were Federal and $223,291,201 State taxes. The total taxes paid in 1921 approximated $276,724,000. After paying taxes and operating expenses in 1921, there remained but $600,406,000 to pay a return on the tentative valuation of $18,900,000,000 as found by the Interstate Commerce Commission."**

### Undue Limitations Harmful.

The Commission has placed its finger upon an essential truth in connection with the railway problem when it says:

"The transportation systems must be continually improved to keep pace with industrial progress. It is possible to cheapen transportation through intensive development such as electrification, improvement of rolling stock and other equipment, and the use of the most modern methods in the loading of trains. This country has enjoyed railroad transportation on a cheaper basis than practically any other civilized country in the world, but can not continue to do so by restricting initiative or by undue limitation of railroad profits earned under uniform and reasonable rates."

Economic progress means increased production, increased traffic, increased trade; it calls for the continuous development of railroad facilities. Extensions and betterments cost money. What the carriers needs are and the reasons for those needs are thus given by the Commission:

"The production of the principal products of the country increases on the average from 3.6 to 4 per cent per annum, and the traffic units consisting of the combined ton mileage and passenger mileage of the railroads increased on the average between 6 and 7 per cent per annum since 1908. In periods of prosperity these increases are substantially exceeded, but the transportation service of the country needs an increased yearly investment to finance additional tracks, stations, equipment, and facilities to take care of this growth. While it is generally stated that a billion dollars a year ought to be provided to finance railway extensions, new equipment, and improvements, the actual experience since 1908 is that the property investment of the railroads has increased on an average of only $540,000,000 per annum. However, in view of the fact that prices of material and labor have increased and that increased railroad property investment has been restricted for several years, at least $750,000,000 per annum should be spent for several years for the foregoing purposes."

END OF
TITLE